

Strategic Committee on Postsecondary Education
Minutes
September 26, 2001

The Strategic Committee on Postsecondary Education met September 26, 2001, in Room 131 of the Capitol Annex.

The following members attended: Mr. Baker, Mr. Barrows, Mr. Davies, Mr. Ford, Ms. Helm, Mr. Kelly, Ms. Luallen, Mr. Moberly, Governor Patton, Mr. Ramsey, Mr. Rose, Mr. Sanders, Mr. Stivers, Mr. Turner, and Mr. Williams. Mr. Whitehead chaired the meeting. The following members were absent: Ms. Adams, Mr. Boswell, Mr. DeWeese, Mr. Hall, Mr. Hoover, Mr. Karem, Ms. Menendez, Ms. Miller, Mr. Neal, Mr. Richards, Mr. Stumbo, and Ms. Weinberg.

Due to lack of quorum, the approval of the minutes from the June 8, 2001, meeting was postponed until November 15, 2001.

Mr. Whitehead introduced Dr. Suzanne Ildstad, director of the Institute for Cellular Therapeutics, Jewish Hospital, and distinguished chair of transplantation and professor of surgery at the University of Louisville School of Medicine. After residency training in general surgery at Boston's Massachusetts General Hospital, Dr. Ildstad conducted research at the National Institute of Health. Dr. Ildstad then specialized in pediatric surgery at the University of Cincinnati. Her discovery and description of a specific bone marrow cell has enabled Dr. Ildstad and her colleagues to develop transplant procedures that promise decreased morbidity in organ and tissue transplantation. Her research is currently being applied in six clinical trials in the United States and Europe to treat a number of diseases. She is author or co-author of more than 100 scientific papers, books, and chapters.

Dr. Ildstad updated the committee on her work resulting from the Bucks for Brains program.

The institute was recruited to the University of Louisville in December 1998. The mission of the institute is to rapidly transition basic discoveries from bench to bedside. The institute has specialists from many different disciplines that reside and work together. The institute also has "networked out" to collaborate with a number of different departments at the University of Louisville, Jewish Hospital, across Kentucky, and throughout the country. This very diverse research group has grown from 30 people to 55.

One of the institute's goals is education. Education is the foundation of growth and development and medical education is the basis upon which medical treatment, cure procedures, and lifesaving medical technologies develop.

The institute is a multidisciplinary group that works from a core philosophy that, instead of individuals having their own laboratories, the equipment is shared and people have maximum exposure and use of very expensive equipment. This allows the money to be put into people doing research rather than having duplication of equipment in labs. It has been a very effective paradigm and it also encourages collaboration.

In her own program, Dr. Ildstad is responsible for mentoring faculty, medical students, undergraduate students, and people who come to train at the institute. Most of the work focuses on ways to make bone marrow transplantation safe enough to treat all the different diseases that can be treated.

The institute has a number of teaching programs – post-doctoral research fellows, medical students, and undergraduate students both locally and from around the world. The institute has an underrepresented minority program, and a summer minority student program is offered as well. The institute's staff comes from around the world. The institute offers research jobs and has hired a number of local people.

The institute mentors students. The Medical Student Sickle Cell project is a group of students who belong to the National Student Medical Association at the University of Louisville. These students approached the institute wanting exposure to patients with sickle cell. The institute has a grant to treat patients with sickle cell and as a result of assistance from community leaders, the Sickle Cell Association of Kentuckiana was formed. Prior to that, Kentucky was one of the few states in the country that did not have a state chapter of the national Sickle Cell Association. The reason that is important is the competition for a sickle cell center of excellence as a medical center. There are ten NIH-funded sickle cell centers throughout the country and the renewal for those grants just came up.

The institute has a visiting professor series that brings in highly respected people from throughout the world. It is open to everybody with different disciplines and different hospital systems. Several University of Kentucky professors have been visiting professors.

The scientific mission of the institute is to pioneer new cell base therapies for the treatment of disease and transfer the basic discoveries quickly from bench to bedside. There are a striking number of diseases that are potentially treatable with bone marrow transplantation, including the autoimmune diseases. About 4 percent of people worldwide have some form of autoimmune disease. About 4 percent of people in Asia and Africa have either sickle cell disease, which is a red blood cell disorder, or thalassemia. If the institute can find a way to transfer tissue more safely, then we can potentially help those patients who do not have other options. That has been the focus over the past ten years.

The institute has a state-of-the-art cell-processing center at the Baxter Building that is being made operational to do its own marrow processing. It might be helpful to understand the chronology of how long it takes from making a discovery, to issuing a patent, to applying it clinically. Essentially in 1998, the original experiments were done. The facilitating cell, which is the cell that makes the bone marrow transplant safe, was discovered and patented. It took until 1998 for the patent to actually be issued. But in the interim, the patent was licensed by the University of Pittsburgh to a company as a biotech startup. That company is still in its early stages of development.

The institute has submitted 10 patents since joining the University of Louisville (none of which have been issued yet). It will take a few years for them to be issued. There has been one biotech

startup company to hopefully cause transplant patients to need less immunosuppression. That company is in the start-up phase but it looks very promising.

As the result of Bucks for Brains, the number of endowed chairs has dramatically increased. Outstanding nationally and internationally recognized people have been recruited as a result of the Bucks for Brains initiative.

Dr. Ildstad was asked to chair the Institute for Medicine for the National Academy of Sciences Committee on studying astronauts in space. Another major project is with the Louisville Science Center – lecturing to students in high schools as well as elementary and middle schools (via a telelink system to 200 different schools) to get them interested in science.

Future directions are to continue bringing medical students into education, continue to work with the Sickle Cell Society of Louisville, and also hopefully establish a Sickle Cell Medical Center of Excellence as well as have the clinical program underway.

Ms. Luallen asked about the strengths and advantages of moving the entire institute to Kentucky and the recruitment process.

Dr. Ildstad replied that 12 different institutions from 1994-96 recruited the institute and Philadelphia was chosen. Three months later the University of Louisville called and a visit was made. All of the components were there in Louisville, Kentucky – an outstanding transplant team, a very supportive university president, and a governor who was very focused on university-based research as a key component of a statewide economic development strategy. Within three months, the decision was made to come here. The resources and infrastructure are there as well as the responsiveness. It is really good to have a president, a university structure, and a state government structure that understand education.

Mr. Ramsey reported on General Fund revenue developments. The statute requires that three things be included in the budget planning report: a baseline analysis, projections of economic conditions, and the economic outlook.

Kentucky has been very fortunate with 18 years of uninterrupted economic growth. In November and December of 2000, the light switch was turned off. Some of the reasons this happened was the stock market correction; a very cold winter; high energy prices resulting in a loss of consumer confidence; weak retail sales; a very weak Christmas buying season; and ultimately, with weakness in retail sales, a drop in manufacturing employment in Kentucky, particularly in its durable industry.

There was a leveling off in the stock market, but with the events of the last several weeks, the stock market again has backed off some. There continues to be a lot of consumer nervousness.

One of the most telling things about the drop in consumer confidence that has occurred since January 2001 is the loss of business confidence. But the real problem is that the dramatic drop in business confidence as reflected over the last year has caused a drop in industrial production.

Kentucky's manufacturing sector of the economy is very important. On average, Kentucky has 23 percent more manufacturing jobs than the national average. Pay in this sector is about 30 percent greater than average wages in the state. Kentucky has been losing some manufacturing jobs for the last several years. Most of those have been non-durable manufacturing jobs and a lot of that has been the textile industry in south central Kentucky. But in the last year the jobs being lost are durable manufacturing jobs, and these are the best paying jobs.

This budget planning report outlook was prepared August 14 by the Consensus Forecasting Group. Their primary focus was on employment forecasting. Following is some history and the five-year outlook for non-agricultural employment in the Commonwealth of Kentucky.

The new projection of August 14 for the current year in non-agricultural employment is the lowest level of growth in employment in a decade. At that time the forecast for Kentucky was for a lot of growth in the service sector and in several other sectors, but with a loss of jobs in manufacturing.

The good news is that a rebound in job growth is expected in 2003, but at a level that is very small in terms of historical comparison – just over 1 percent and back up to 2 percent in non-agricultural employment in 2004, 2005, and 2006. But even at those levels in 2004, 2005, and 2006, those employment growth levels forecasted August 14 are less than the average for the entire decade. So the average growth throughout the 1990s would exceed what is being forecast for 2004, 2005, and 2006.

Jobs lead to personal income. Personal income is all income earned by Kentuckians whatever the source – wages, salaries, rent, and interest dividends. Fiscal year 2002, the current fiscal year, is going to be a tough year with the lowest personal income growth in the last decade. Again on August 14 the assumption was that the national economy would accelerate around January 2002. The Kentucky economy would accelerate and pick up January 2002. Those assumptions were a critical part of the August 14 forecast and now are very much up in the air.

The outlook for the General Fund and the Road Fund (this is for the current year and four years going forward). When the General Assembly left town in 2000, the fiscal year 2001 budget was \$6,813,000,000. In March 2001, it became obvious that the revenue estimate was not going to be met. There was hope in January of a bounce back but February and March were bad months. The Consensus Forecast Group did an official revision in March revising downward by about \$92 million. The group came back June 14 and again made a second official revenue revision for the year. That revision put the total revenue shortfall for the year to about \$159 or \$160 million. There were two budget cuts but all of education was exempted from any cut in fiscal year 2001.

The fiscal year 2002 budget was built on an assumption of \$7,183,000,000 in revenue. There was not a revision for 2002 in March. But June 14, the Consensus Forecast Group declared Kentucky was not going to hit the revenue forecast for 2002. It was revised downward by \$295 million. Work began and actions were taken as prescribed by law and in the appropriation bill to balance the budget to make the cuts that were needed to bring revenue and expenditures into line.

The planning estimates that are provided do not constitute an official revenue revision, but it is important to understand that June 14 the Consensus Forecasting Group officially revised the revenue estimate downward by \$295 million. Two months later, August 14, the CFG sent a planning number \$60 million below that. No action was taken on that \$60 million because it was not an official revision.

On August 14, the Consensus Forecasting Group called for revenue growth of about 2.6 percent this year. The average can be very misleading – but the average revenue growth for the General Fund for the 1990s was about 4.5 percent. Throughout the 1990s there were about \$300 million in tax cuts. Kentucky was experiencing about 4.5 percent growth during that period of time. The August 14 message from the Consensus Forecasting Group is that for the next five years and more, modest revenue growth should be expected.

What has happened since August 14. July's first month fiscal year receipts grew .7 percent. August receipts declined. When looked at together, so far this fiscal year only \$60,000 more in revenue was collected than was collected in the first two months of the last fiscal year.

Several months ago, Governor Patton created a group called the Governor's Conference of Economic Advisors. Everything that has been presented up to now is based on econometric models of the national economy and the state economy. They are models that take macro information, statistics, and data and crunch the numbers into computers to come up with these forecasts. This group met in June in Louisville.

The impacts of September 11 are unknown: Are we heading into a recession? Arguments can be made both ways. In terms of yes, consumers are very nervous. A lot of businesses are delaying any spending and are trying to liquidate and bring down inventories. We have a weak global economy, a strong dollar. One of the problems is the weakness that was concentrated in the southeast and midwest is now spreading. With the weaknesses in the financial industry, travel industry, and airline industry, the major concern now is that the weaknesses are spreading to the coast. A weakness is beginning in the labor market. There was a very strong labor market for a number of years. Companies were not able to find workers. Now there are dramatic increases in the unemployment rate.

On the no side of the equation, the chairman of the Federal Reserve has done all that can be done in terms of interest rates. But there is a lag and while Chairman Greenspan has been trying to push down interest rates, the impact of that on business spending has not been seen yet.

The influence of the Federal Reserve chair is really on the short end of the yield curve. Interest rates have come down pretty significantly. There is a lot of liquidity in the banking system.

The state tries very aggressively to manage its investments and, right now, overnight investments – repurchase agreements that are done overnight – are earning 1 percent. There is just a lot of liquidity.

Kentucky is very fortunate that the long end of the yield curve is staying about where it has been.

Implications on the fiscal condition of the state. The August 14 estimate for fiscal year 2002 of \$6,827,000 is not an official estimate, but it is the number required by statute. That is \$60 million less than what has already been cut to be in balance this year.

As part of balancing, agency fund transfers have been maximized to \$59-60 million so there are total resources of about \$6,886,000,000.

Base line appropriations: Recurring base of expenditures. The difference between baseline expenditures and resources is \$216 million – \$60 million of that is the August 14 estimate. Since that is not an official estimate, cuts were made – \$120 million of that is the budget reserve trust fund – one-time money. It could balance in the current year. The budget reduction plans could take up to 50 percent of the budget reserve trust fund. The year started with \$240 million in the budget reserve trust fund – \$120 million was taken (one-time money) and when that's gone, it's gone.

Other nonrecurring items and some carry forwards. The current year was balanced using \$21.4 million of carry forwards from 2001. Then the \$15 million of the enacted lapse that had to be cut in order to come up with the lapse is needed to ensure balance.

The fiscal year 2003 number of \$7,055,000 is a Consensus Forecasting number. It was assumed, based on historical trends, that we could count on another \$30 million in transfers each year going forward. That gives total resources of \$7,085,000,000. The base line appropriation is what is being spent now on a recurring basis inflated by 2 percent as stated in the budget instructions. State agencies have been asked to prepare a current services budget with a 2 percent increase. A 2 percent increase in the current services would be \$7,253,000,000, which would be out of balance by \$167,000,000.

This budget planning report is only a planning document. There is a long way to go to develop budget recommendations. But the next thing is the requirements and the continuation numbers amounting to \$137 million for fiscal year 2003 and so that would be out of balance by \$304 million in first year of the biennium.

An important item to SCOPE is the lottery that is being earmarked more and more, up to 100 percent, for merit-based and need-based student financial aid. Another assumption is that \$25 million a year would need to be appropriated in each year of the next biennium to replenish the budget reserve trust fund, which is very important for bond rating purposes.

Next steps: The official revenue estimates are statutorily required by October 15.

Data Resources, Inc. (DRI) has been Kentucky's forecasting service for over a decade. DRI has been overly optimistic the last year or two. Now DRI has gotten very pessimistic and is projecting that the first quarter of this fiscal year GDP will fall by .2 percent but will fall by 1.8 percent in the fourth quarter.

Another forecasting service, in addition to DRI, will be subscribed to because the events of September 11 bring a whole new dimension to the ability to accurately forecast.

Gordon Davies, Sue Moore, and Angela Martin spoke about postsecondary education's 2002-04 budget planning issues.

Mr. Davies began the presentation. The council is building a budget based on the points of consensus document (the document SCOPE advised the council to look at and the council accepted). The council is reviewing other approaches that will require modest growth in funding.

Revenue has grown in the last four years by about 20 percent and the postsecondary education budget has grown by about 40 percent.

The General Assembly has been extraordinarily generous in funding this reform. At the same time, the reform has to continue and the real test of this reform is whether it can continue when times get difficult.

Fall enrollment was up 11,000 – from 166,000 to 177,000. Counting the independent colleges and universities, for the first time in history, Kentucky postsecondary education enrolls more than 200,000 people. In four years, enrollment is up by 18,000 students. The KCTCS is up 32 percent in its enrollment.

Bucks for Brains. One hundred endowed chairs and 148 endowed professorships have been added. Dr. Ildstad is just one of a number of outstanding scholars who have come to Kentucky because of this program.

Research. Research is attributable to the energy that has been generated in this state. In 1997, the University of Kentucky and the University of Louisville were doing about \$122 million worth of extramural research. That's research from the feds, foundations, and private corporations – research that is funded by the state, such as lung cancer research. In 2000, it was \$173 million – up \$51 million in a period of three years – a 40 percent increase. Bill Brundage, the commissioner of the New Economy, has set goals to get to \$500 million worth of extramurally funded research by 2010. The second challenge is to get to \$1 billion by 2020.

The Virtual University started with 200 or so students in nine programs. This fall, there are over 5,000 students in 29 programs. The Virtual Library is serving Kentuckians all over the state – 600,000 transactions a month which translates into 800 an hour every day, 24 hours a day, seven days a week.

Adult education. SB 1, which was enacted by the 2000 Session of the General Assembly, gave the Council on Postsecondary Education and the Workforce Development Cabinet joint responsibility for adult education. In the year 2000, 50,000 students enrolled in adult education. Last year 63,000 enrolled and there will be 75,000 this year, 100,000 by 2004, and 300,000 by 2010.

The number of GED test takers (test takers for the equivalency diploma) was up 70 percent from June 2000 to June 2001 largely because of advertising. Traffic is so heavy that additional testing

stations are being opened. Of all the high school completers in Kentucky every year, almost 25 percent of them are GEDs. Three-fourths of them get a high school diploma. But ¼, or 14,000, of them get high school completion through the GED. About 10-12 percent go on to some form of college, technical college, or community college. That is the population that needs to be reached and the presidents are working on it.

Two major responsibilities in this reform are to help prepare a better-trained and educated workforce and to create better jobs – Bucks for Brains on one end, adult education and increased enrollments in postsecondary education on the other end.

Sue Moore added that at SCOPE's June meeting, the key indicators, what the council is using to measure progress in implementing HB 1 in the reform, were discussed. Those key indicators are formed around five questions: 1) Are more Kentuckians ready for postsecondary education? 2) Are more students enrolling? 3) Are more students advancing through the system? 4) Are we preparing Kentuckians for life and work? and 5) Are Kentucky's communities and economy benefiting? These questions are used to make the point that improving postsecondary education is really about improving the lives of Kentuckians.

The revised action agenda for 2001-06 is framed by these five questions and is the document that sets the stage for the development of the 2002-04 biennial budget request.

HB 1 requires the council to develop a strategic implementation plan and a set of measures to monitor the system's progress.

In the first edition, increasing enrollments, retention, and graduation rates as well as improving college-going rates of high school graduates were the main points of concentration. In 1999, the objective of increasing undergraduate enrollment by 80,000 students by the year 2020 was set.

A major stimulant for making that happen was the appropriation made by the General Assembly in the 2000-02 budget for incentive trust funds to reward that type of performance – to reward enrollment increases and retention rate increases. This is a good example of how incentive trust funds can help to change the behavior to what is wanted for the system.

In the newly revised action agenda, a more complete set of performance indicators is included. The targets for the original indicators for enrollment, retention, and graduation rates were revised to take into account the progress made in these first four years.

The five questions are already guiding reform. Institutions, when proposing new programs, reporting on progress, or requesting new funds, explain the connection to the five questions.

The council reorganized itself and the way it conducts its business. In June, members voted to do away with the traditional academic affairs and finance committees recognizing that it is difficult and basically artificial to compartmentalize its work that way. The council's agenda is now organized around the five questions.

This action agenda and the goals for monitoring are what have been driving the development of the 2002-04 budget recommendation.

Mr. Kelly pointed out that the literacy effort encompassed in SB 186 in the 1998 legislature had a higher education component creating the Collaborative Center for Literacy Development at UK. It also contained a research component to measure the efforts to find kids who can't read and help them be able to read. Also important are adult literacy efforts and whether or not there is success there. Mr. Kelly hoped that in the future as indicators are reviewed this component is not overlooked. Mr. Davies replied that the P-16 Council has expanded to include early childhood and adult education.

Angie Martin explained the development of the 2002-04 budget request.

The budget for postsecondary education (as enacted) for the current year is about \$1.2 billion. The total state general fund budget is over \$7 billion of which postsecondary education takes a good portion. Most of the \$1.2 billion is in the institutions' base budgets. There are 10 institutions in Kentucky, counting Lexington Community College separately, with a total of \$986 million in the base.

The Points of Consensus agreement was developed among the university presidents, the president of the KCTCS, and the council president. This agreement was presented to SCOPE in January and the council endorsed it February 2001.

The first thing agreed on was that benchmark funding would be continued. The institutions were given an opportunity to revise their benchmark list on which benchmark funding is based. The council staff worked with the institutions to revise the list. Seven institutions wanted to renegotiate and did so. The KCTCS, UK, and UofL chose not to renegotiate their benchmark list. The revised benchmark list was presented to the council in July.

The council has entered into a contract with the firm MGT of America to conduct a study to identify and remove general fund debt service and state funded mandated programs from the benchmark model. MGT is surveying 125 benchmark institutions, nine benchmark states for the KCTCS, and Kentucky's 10 institutions. MGT will make a recommendation on what mandated programs have no instructional functions and how much debt service should be pulled out.

Another point agreed to was to use a standard tuition revenue deduction. The benchmark funding model is based upon this calculated funding objective.

The public funds amount for the benchmarks are reviewed, and how much state appropriations and tuition revenue institutions get per full-time equivalent student is then determined. Then a funding objective is chosen involving total public funds. To determine how much state appropriation to request for an institution, tuition and fee revenue are removed.

For 2000-02, the institutions' budgeted tuition revenue was used. This varies greatly among the institutions – from 24 percent to 60 percent. It was agreed in the points of consensus to use a standard tuition revenue deduction to make it fairer across the system.

Staff recommended and the council approved that the standard tuition deduction for the universities is 37 percent of budgeted tuition revenue, whichever is lower, which means that 63 percent of the public funds amount should come from state appropriations. It was determined that the standard tuition deduction for the KCTCS, LCC and KSU would be 30 percent. This says that the state appropriation should play a bigger part in funding the community colleges and KSU – 70 percent as compared to 63 percent for the universities.

That was done for two reasons. The higher state appropriation amount for the KCTCS and LCC is justified because it helps fund Kentucky's commitment to postsecondary education for all its citizens. The lower tuition deduction, which means a higher state appropriation amount, is appropriate for KSU given its status as the state's historically black institution and to provide greater access for the students that it serves.

Another item in the points of consensus is that the institutions were given the opportunity to request special funds as part of the biennial budget development process. In May, the council approved the guidelines for those requests and 21 requests for special funds were received totaling \$26 million. Those requests are being reviewed now.

As part of the points of consensus, it was agreed to establish the guidelines for the criteria for the distribution well in advance. The council has already approved the guidelines for the special funds request – not only how requests are to be submitted but also how the requests will be evaluated.

It was also agreed to create a new enrollment growth and retention trust fund. This is not a new concept. An enrollment growth and retention program exists and is currently located within three separate trust funds. Only certain institutions by type can participate in each program. For example, in the workforce development trust fund, only the KCTCS can receive enrollment growth and retention money. Under the research challenge trust fund, only UK, UofL, and LCC can receive money from the enrollment growth and retention trust fund. In order to administer this program to its full benefit, it was agreed that a new separate trust fund for enrollment growth and retention was needed. It will be recommended that separate programs within the trust funds are to be eliminated and a new trust fund for enrollment growth and retention is to be created.

The points of consensus also covered the capital planning or capital budget request process. It was agreed that the space planning model or space needs model to address research space primarily at UK and UofL would be reviewed and to also look at the quality of space and fitness for the purpose of existing facilities.

For the current biennium, the budget request for capital projects was based upon a space needs model that was developed by the firm Dan Paulien and Associates. It was a quantifiable space study that did not look at the quality of the space.

Eight different categories were developed and the space needed by each institution for these categories was determined. The space model showed that most institutions had surplus space. The model was revised to address research laboratory space at UK and UofL. The same key

indicator measure for research and development is now being used. External funding, as reported to the National Science Foundation to help derive how much research space is needed at UK and UofL, is going to be reviewed. The architect David Banks has been contracted to conduct site visits at all campuses to look at the top priority projects at each campus. When the council makes its capital recommendation in November, it is going to have three pieces of information. It will have the space needs model as revised and the results which shows surpluses and deficits. It will have David Banks' report which shows the quality of the space that the institutions are requesting for replacement, new construction, or renovation. The council will also hold a budget hearing with the presidents October 10 when the presidents can review their capital priorities.

Overview of the 2002-04 budget guidelines. Since the reform act, postsecondary education's budget has three main components – benchmark funding or its part of the base funding, trust funds, and capital projects.

Base funding. The benchmark institutions in accordance with the points of consensus were revised. The council recently set the funding objective. What is to be used to peg the state appropriation needs? Last time, the 55th percentile of the benchmark list was chosen to be the funding objective. The problem with that is that it singled out an institution within that overall list of benchmark institutions. So the council approved a new method, the average of the 50th, the 55th, and the 60th percentile. That same list will be used and the average of the 10th, 11th, and 12th institutions will be used to determine the funding objective. It is no longer going to be based on a single institution. This new method also helps in doing the MGT survey.

The base adjustments include things such as state-supported debt service that fluctuates every biennium, operation and maintenance expenses for new expenses coming on line, and it can also include special funding requests that the council recommends.

Trust funds. Currently, there are eight trust funds with \$112 million in 2001-02.

Endowment match program. This program is in two trust funds – the research challenge trust fund for UofL and UK and the regional university excellence trust fund for the comprehensive institutions. A third round of Bucks for Brains is needed. Dr. Ildstad's presentation illustrated how highly successful the program has become.

Currently, counting the matching funds, there is the potential for \$460 million of endowments to be added to the institutions since July 1998. Over 83 percent of the \$230 million state portion has been matched by the institutions already.

The council has established an endowment subcommittee under the new council structure to review the current matching guidelines. There are several issues with the guidelines. The guidelines might not be completed by November 5 when the council meets, but the work of the subcommittee will be completed by the end of this year. Current guidelines are being reviewed now as are donor confidentiality issues and the responsibility for the funds between the council and the institutional boards of trustees and boards of regents.

The enrollment growth and retention programs in the research challenge trust fund and the regional university excellence trust fund will go away and become part of the enrollment growth and retention trust fund.

An instructional and research equipment pool already exists. This was very popular with the institutions for 2000-02. The Commonwealth provided debt service for a \$20 million equipment issue and the institutions could – it was allocated solely to them – replace the instructional equipment – there was no match required. If research equipment was to be replaced, a dollar-for-dollar match was requested. Another instructional and research equipment pool may be requested.

Physical facilities trust fund. The only thing that is in this trust fund is debt service. There is debt service for the capital renewal and maintenance pool – a \$30 million pool. The institutions receive that money. It is allocated to them based on square footage of campus space but in 2000-02 the institutions have to match the money dollar-for-dollar. There will still be a matching component this time, but the matching method is being revised to reflect institutional effort at maintaining their facilities. So for those institutions that historically have maintained their facilities, the match may be slightly less than dollar-for-dollar.

Student financial aid and advancement. This trust fund money runs through the council and the KEES scholarship money is then transferred to KHEAA for administration. There will be an increase in this trust fund for that scholarship program.

The council wants to continue to work with adult education and literacy.

Additional funds are needed in the science and technology trust fund, e.g., money for the new joint engineering programs between UK, UofL, MuSU, and WKU will be requested.

Requesting funds for new economy-related initiatives is being considered. Bill Brundage has stated that there are two primary needs in this state for the success of the new economy. One of them is engineering and the other is technology.

Two new trust funds probably will be proposed: the enrollment growth and retention trust fund and a teacher quality trust fund. Rep. Moberly introduced a bill at the last session on teacher quality. The trust fund guidelines primarily will be based on that bill to create model teacher education programs in the state. This may be on a proposal basis and perhaps allow a single independent institution to participate. Guidelines are being drafted and will be taken to the council in October.

Mr. Stivers asked what specific groups have come into Kentucky as a result of the funds put into the trust funds like Bucks for Brains.

Ms. Martin replied that the next annual report from the institutions was due October and that information would be provided to SCOPE.

Mr. Shumaker added that virtually every group recruited is either in the process of or has spun out at least one or two companies. Last year the Louisville Medical Center Development Corporation developed a plan for an incubator facility at the Health Sciences Center that will house these companies and get them started.

Dr. Ildstad added that the Institute for Cellular Therapeutics filed 10 patents and one biotech start-up emerged as a result of one of those patents. The patents have not been issued yet. There is a lag between when patents are filed and actually issued, but that does not mean that a company cannot start up in the interim.

Mr. Stivers was interested in knowing the location of these groups – especially those that could bring opportunities to the rural parts of the state. Mr. Davies added that this is an area where Bill Brundage and the new economy and the council are working very closely together. Funding was provided for rural technology development. Bill Brundage has suggested taking that concept and transforming it into commercialization centers all over the state. They are scattered throughout the state and not just in the golden triangle area.

Mr. Shumaker added that he and President Todd have brainstormed about taking the model of the agricultural extension service and applying it to entrepreneurship. UofL and UK both have very strong entrepreneurship programs, and there should be a way to capitalize on these models and extend those resources further out in the state.

Mr. Todd commented that we are beginning the entrepreneurship center and will have one segment focus on agricultural entrepreneurship and another one on community entrepreneurship to go out and help these communities. The focus needs to be on getting out of the state but still investing in the research institutions that are in the triangle. Programs like the statewide engineering program and the agriculture extension program need to be moved from the triangle area out into the state. Some of those cannot be expected to develop in the non-triangle regions, but there is an obligation to get them out there.

Ms. Luallen said there is the need to think differently in every community about how to build an economy based on knowledge. One of the biggest challenges for the new Kentucky Innovation Commission is to bring together leadership of business, higher education, government, and economic development planners to think about what strategies are needed in Kentucky which has such economic diversity and so many different challenges in different parts of the state.

Members of the Innovation Commission have different strategies for their particular parts of the state and there is a lot of enthusiasm. There has been a lot of community involvement and leadership. Finding linkages and connections among higher education, elementary and secondary education, and economic planning is the next critical step in thinking about how all of these pieces begin to fit together and how to reach out to counties like those being served.

There was no new business and the meeting adjourned.